

Message Text

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FM SECSTATE WASHDC

TO ALL DIPLOMATIC POSTS

USINT BAGHDAD BY POUCH

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FOLLOWING REPEAT USUN 1805 ACTION SECSTATE 08 JUN 77

QUOTE

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DEPT PASS ALL DIPLOMATIC POSTS

FROM US DEL LOS

E.O. 11652: N/A

TAGS: PLOS

SUBJECT: LOS CONFERENCE--WEEKLY REPORT, WEEK OF
MAY 31-JUNE 3, 1977

1. SUMMARY: DURING THE SECOND WEEK OF CONFERENCE,
WORK WAS CENTERED IN THE INFORMAL WORKING GROUP
SET UP BY CHAIRMAN ENGO IN COMMITTEE I, UNDER NORWE-
GIAN MINISTER EVENSEN. DISCUSSION OF THE SYSTEM OF
EXPLOITATION REVEALED CONSIDERABLE MODERATE
SUPPORT FOR A PARALLEL OR DUAL SYSTEM. U.S. DELIVERED
MAJOR STATEMENT AT END OF WEEK ON FINANCIAL ARRANGE-
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MENTS, INCLUDING FINANCING OF THE ENTERPRISE, WHICH
WAS WELL RECEIVED. MEETINGS OF THE "GROUP OF 21"
ON THE COMMITTEE II LL/GDS PROBLEM WERE HELD. US CONTI-
NUES, IN PRIVATE CONVERSATIONS, TO MAKE CLEAR NECESSITY
OF CHANGE IN TEXTS ON STATUS OF THE ECONOMIC ZONE
AND SCIENTIFIC RESEARCH. END SUMMARY.

2. COMMITTEE I: A. GENERAL BY THE END OF THE WEEK, EVENSEN WAS CONVENING THREE SESSIONS A DAY IN ORDER TO CONCLUDE DEBATE ON KEY ELEMENTS OF THE SEABED REGIME BEFORE SUBMITTING A REVISED COMPROMISE TO CHAIRMAN ENGO DURING THE WEEK OF JUNE 6.

B. SYSTEM OF EXPLOITATION ARTICLE 22, 23, ANNEX I DISCUSSION CENTERED ON THE PARALLEL SYSTEM AS OUTLINED BY THE EVENSEN TEXTS. THE US, FRG, FRANCE, THE UK, AND JAPAN INTERVENED IN THE COURSE OF DEBATE ON ARTICLE 22 TO STRONGLY ENDORSE THE PARALLEL SYSTEM AND PROPOSE CHANGES TO THE EVENSEN TEXT WHICH WOULD STRENGTHEN THE CONCEPT OF ASSURED NON-DISCRIMINATORY ACCESS TO THE SEABED FOR STATE-SPONSORED MINERS. AT LEAST PROCEDURALLY, THE USSR SEEMED WELL DISPOSED TO THE EVENSEN TEXT. SOME COUNTRIES CONTINUED TO URGE A UNITARY SYSTEM, THERE WAS INCONCLUSIVE DISCUSSION, INITIATED BY MEXICO, OF THE QUESTION OF A POTENTIAL RELATIONSHIP BETWEEN THE ENTERPRISE AND THE CONTRACTOR WITH RESPECT TO THE NON-RESERVED SITE.

C. FINANCING THE ENTERPRISE AND REVENUE SHARING ON JUNE 3, US (RICHARDSON) DELIVERED A LENGTHY STATEMENT ON FINANCING, DEALING WITH BOTH ENTERPRISE START-UP AND REVENUE SHARING. HE REITERATED US INSISTENCE ON ASSURED ACCESS FOR STATE-SPONSORED PARTIES AND A REGIME THAT DOES NOT DISCOURAGE SEABED PROVISIONS. HE CHIDED THE GROUP FOR SEEMING TO FOCUS ON "HOW BEST TO DESIGN A SYSTEM FOR NON-EXPLOITATION". CONTINUING, HE REGRETTED THE TENDENCY TO BE "MORE CONSERVATIVE IN OUR PROTECTIONISM THEN CREATIVE IN OUR QUEST; OFTEN, UNCLASSIFIED

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MORE HESITANT FOR OUR FEAR THAN CONFIDENT IN OUR HOPE." ON REVENUE SHARING, RICHARDSON SUGGESTED MINIMIZING FRONT END FEES, AND ALLOWING EACH STATE-SPONSORED OPERATOR TO SELECT EITHER PROFIT SHARING OR ROYALTY PAYMENTS. UNDER THE PROFIT SHARING FORMULA, THE AUTHORITY WOULD RECEIVE 15-50 PERCENT OF NET PROCEEDS, DEPENDING ON THE OPERATOR'S STATE RATE OF RETURN. THE ROYALTY WOULD APPLY TO THE IMPUTED VALUE OF MINED NODULES, SPECIFIED AS ONE-FIFTH THE GROSS FAIR MARKET VALUE OF THE PROCESSED FOR THE FIRST TEN YEARS OF COMMERCIAL PRODUCTION, RISING TO 50 PERCENT THEREAFTER. RICHARDSON ESTIMATED THAT EITHER PAYMENT SYSTEM WOULD RESULT IN REVENUES TO THE AUTHORITY OF \$5-10 MILLION PER SITE IN THE EARLY YEARS OF COMMERCIAL PRODUCTION, AND \$25-35 MILLION IN LATER YEARS. REVENUE SHARING IN THE EARLY YEARS WOULD BE INSUFFICIENT TO FINANCE THE START-UP OF THE ENTERPRISE, HE SAID, THUS REQUIRING A SUPPLEMENTAL SYSTEM OF GOVERNMENT-BACKED DEBT. THE GOVERNMENT GUARANTEES

WOULD BE APPORTIONED AMONG MEMBER STATES ACCORDING TO THE UN SCALE OF ASSESSMENTS, AND COULD INCLUDE- A REQUIREMENT FOR EACH STATE TO ADVANCE UP TO 10 PERCENT OF ITS CONTINGENT LIABILITY ON A REFUNDABLE BASIS. THE \$500-700 MILLION FINANCING PROGRAM WOULD COVER THE COSTS OF THE INITIAL SITE, BUT IF THE ENTERPRISE SEEKS TO FORM SEVERAL JOINT VENTURES WITH CONTRACTORS, THE GUARANTEES MIGHT BE APPORTIONED OVER SEVERAL SITES, RICHARDSON SAID.

INDIA FOLLOWED THE US WITH ITS OWN REVENUE SHARING PROPOSAL, THE TERMS OF WHICH PLACE A FAR HEAVIER BURDEN ON STATE CONTRACTORS.

THE APPLICANT WOULD APY:

--APPLICATION FEE OF \$100,000;

--MINING RIGHT CHARGE: \$1 PER TON OF DRY

NODULES ALLOWED TO BE RECOVERED, DEPOSITED WITHIN

ONE MONTH AFTER AWARDED CONTRACT (APPROX. \$60

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MILLION);

--TAX AT THE RATE OF 20 PERCENT OF GROSS SALES FROM PROCESSED METALS;

--ROYALTY AT RATE OF \$5 PER TON OF DRY NODULES MINED;

--AFTER CONTRACTOR'S TOTAL RETURN IS

200 PERCENT OF CAPITAL INVESTMENT, FUTURE NET PROCEEDS

WOULD BE DIVIDED; 60 PERCENT TO AUTHORITY AND

40 PERCENT TO CONTRACTOR.

3. COMMITTEE II: COMMITTEE II DID NOT REPEAT NOT MEET THIS PAST WEEK, BUT INFORMAL COMMUNICATIONS TOOK PLACE ON SEVERAL ISSUES, INCLUDING THE HIGH SEAS STATUS OF THE EEZ, RIGHTS OF LL/GDS TO EXPLOIT LIVING RESOURCES IN THE EEZ OF THEIR NEIGHBORS/ REGION, AND DEFINING THE CONTINENTAL SHELF WHERE IT EXTENDS BEYOND 200 MILES, COUPLED WITH REVENUE SHARING. THERE ARE SIGNS THAT INCREASED NUMBER OF STATES RECOGNIZE NECESSITY TO MODIFY ARTICLE 75, WHICH INCORRECTLY EXCLUDES THE ECONOMIC ZONE FROM THE HIGH SEAS.

4. COMMITTEE III: CHAIRMAN YANKOV (BULGARIA) ARRIVED AND INDICATED A DESIRE TO BEGIN INFORMAL WORK IMMEDIATELY. JOSE VALLARTA (MEXICO) WILL CHAIR INFORMAL SESSIONS ON POLLUTION WHILE YANKOV HIMSELF WILL CHAIR CONSULTATIONS ON MARINE SCIENTIFIC RESEARCH. IN GENERAL, MOST DELEGATIONS SEEM SATISFIED WITH MARINE POLLUTION TEXT, BUT WILLING TO TRY TO IMPROVE AND CLEAN UP TEXT. ON SCIENTIFIC RESEARCH, THERE IS GROWING RECOGNITION OF NEED FOR CHANGE IN ARTICLE 60 OF PART III, WHICH PRE-

SENTLY ESTABLISHES OVERLY BROAD REQUIREMENTS
FOR COASTAL STATE CONSENT FOR SCIENTIFIC RESEARCH
IN THE ECONOMIC ZONE.

5. PART IV -DISPUTE SETTLEMENT: THE INFORMAL PLENARY
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MEETINGS ON DISPUTE SETTLEMENT WILL COMMENCE
MONDAY, JUNE 6. THE GROUP OF 77 CONTACT GROUP CONTINUED
TO MEET ON THE ISSUES.
YOUNG.
UNQUOTE VANCE.

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